



## Commercial recovery 2-3 years off, Insider Q & A told

August 15th, 2009, 12:04 am · posted by Jeff Collins



*Burrel Magnusson is the majority owner of The Essex Group and is a principal of both Essex Realty Management Inc. and Essex Properties. Since 1971, he has been actively engaged in the development and management of investment-oriented properties. Under his direction, The Essex Group has developed and managed office buildings, industrial parks, and retail centers representing a total value in excess of a billion dollars and several million square feet of space.*

*Essex Realty recently was awarded a management, construction and leasing contract for an Orange County business park portfolio containing 800,000 square feet. We asked him for his take on the market.*

**Us: What's the state of the Orange County market for commercial real estate office vs. more industrial settings?**



**Burrel:** Unfortunately, I'd have to say dismal – to say the least. And that doesn't suggest that the industrial markets are all that rosy – 20+% vacancy rates in the office market and only a little better in the flex/industrial sector.

**Us: Any sense from the local commercial market how the overall local economy is faring?**

**Burrel:** With consumer confidence down and very little spending (both consumer and corporate), corporate revenues across the board have decreased dramatically. The only direction a CEO can take is to cut costs in order to bolster the bottom line and we all know what that means – layoffs. With unemployment skyrocketing and probably more to come, the local economy is sure to suffer. In addition, there's no construction taking place and valuations have plummeted, so all of the cities and counties relying on building permit fees and increased property tax revenues are suffering as well – local economies are hurting.

**Us: How deep is the discounting of Orange County commercial rents? Any chance it will change soon?**

**Burrel:** I think discounts are very substantial. I recently heard from a source that in one particular office transaction - rents on Class A office space were below \$2.00 per square foot. That's \$1.50-\$2.00 below levels attained just two years ago. While I don't see a continued deterioration of this magnitude, the level of discounting could continue for a while as the corporate cost cutting continues and unemployment mounts.

**Us: How hard is it to get financing for acquisitions and/or new upgrades or projects? Any relative change in that?**

**Burrel:** It is extremely difficult to receive financing in today's challenging market. Lenders are very reluctant to make loans and, if they do, the underwriting standards are extremely tough. If you have 50% equity in a deal, you might be able to attract a banker's attention but then, only if it's a credit-worthy tenant. Otherwise, it is an uphill battle. Obviously, there is no spec lending taking place right now and pre-leasing with prime tenants is a requirement. It seems to me that lenders are still hoarding cash, not knowing what the future will bring and trying to solve their own balance sheet problems with under-performing loans.

**Us: The BIG question ... when will local commercial market turn/bottom? Why?**

**Burrel:** I think we have two to three years to go before we start to see an improvement in the commercial/industrial market valuations. This is because high leveraged loans obtained in the 2005 -2007 period won't mature until 2010 – 2012 when banks will be forced to “extend and pretend” or start taking back properties. The bottoming will begin soon but I'm afraid it's not going to be a

quick turnaround but rather, a very prolonged period of correction as employment figures begin to improve.

**Us: Do you find it is difficult in this economy to receive new management contracts? How long did it take Essex to receive the current 800,000-square-foot multi-tenant O.C. business park management contract? What set your firm apart from other property management firms?**

**Burrel:** It has been our experience that obtaining new management contracts during times like this is no more difficult than in “good times.” One of the reasons, no doubt, is that institutions and private investors, alike, need help dealing with under-performing assets during these tough times and look to experienced organizations to help them cope with the increased work load. We have been fortunate to have attracted some very talented individuals with vast expertise in the real estate business and are known commodities within this industry. In times like this, maintaining value for property owners is key to success.